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H PLEASE PASS TO SENATOR REID AND ANNA GALLAGHER

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TAGS: [OREP](#) [PREL](#) [ECON](#) [BR](#)  
SUBJECT: SCENESETTER FOR THE NOVEMBER 27-28 VISIT OF CODEL  
REID

¶1. (SBU) Summary: Brazil's democratic institutions are generally strong and stable, and President Luiz Inacio Lula da Silva remains popular because of his orthodox economic policies and expanded social programs. Export-led economic growth has been the norm in the recent past, while Brazil has supported reasoned foreign policy goals and has steadfastly supported democracy in the hemisphere. In the bilateral relationship, the U.S. and Brazil share many basic goals, although Lula seeks to balance good relations with the developed world with South-South foreign policy initiatives. Brazil's ethanol program has made it a global model for alternative energy and offers potential for bilateral cooperation on an important strategic issue. On the environment, Brazil has long been on the defensive about the ongoing, extensive deforestation of the Amazon, which has made Brazil one of the leading producers of greenhouse gases. The tri-border area in southern Brazil concentrates a range of organized criminal activities, including arms and narcotics trafficking, money laundering, and others. The Brazilian labor movement is strong, well-organized, and very influential in many key industrial sectors. Lula came out of the organized labor movement and labor and social issues have always been among his top priorities. Trafficking in Persons is present in all of its forms in Brazil, but the GoB is making a serious effort to combat it. Brazil maintains good relations with Iran and Venezuela; energy giant Petrobras, majority-owned by the Gob, has joint business undertakings with Iran, and Brazil avoids criticizing Venezuelan president Hugo Chavez. End summary.

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Latin America's Democratic and Economic Powerhouse  
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¶2. (SBU) Brazil's democratic institutions are generally strong and stable, and the military dictatorship that ended over 20 years ago is consigned to the dustbin of history, as Brazil's armed forces today pursue a professional non-political identity. A year following his re-election to a second term, and despite prosecution of high-level members of his administration on corruption charges, President Luiz Inacio Lula da Silva remains a personally popular president as a result of his orthodox economic policies and expanded social programs. Ongoing and public scandals involving the leadership of the Senate and various members of congress have led to low ratings for the institution among the Brazilian public. Increasingly, the court system has taken steps to curb impunity among public officials, which have been well received by a public accustomed to abuses by authorities.

¶3. (SBU) On the economic front, Lula's Finance Minister Mantega, Planning Minister Bernardo, and Central Bank President Meirelles have maintained broadly orthodox

policies. In January, Lula unveiled his Growth Acceleration Program (PAC), consisting of public investment promises and targeted tax breaks aimed primarily at construction and certain high tech sectors, which has become the economic policy centerpiece of his second administration. Although the PAC contains many measures of incremental merit, it does not address some of the growth-limiting distortions in the economy, burdensome tax and fiscal structure and onerous labor and business regulations. Lula's social programs, combined with formal sector job growth and real increases in the minimum wage, have reduced income inequalities each year since 2004. Higher economic growth will be required, however, to lift the masses out of poverty.

¶4. (SBU) With steady export-led economic growth having become the norm in the recent past, Brazil has been a supporter of reasoned foreign policy goals and has been steadfast in its support of democracy in the hemisphere. The attainment of a permanent seat on the UN Security Council has been a central tenet of Brazil's foreign policy under President Lula da Silva's government. More generally, Brazil seeks to play a leadership role on the global stage by, among other things, playing a central role in the G-20 at the WTO, and leading the UN peacekeeping force in Haiti, which could serve as a springboard to greater international leadership on democracy promotion and security issues. Brazil's efforts to build South-South relations continue to dominate its foreign policy, sometimes to the detriment of core political and economic interests. The GoB, along with India, has led the G-20, a group of developing nations coordinating negotiating positions for the WTO Doha Round. The group's widely varying membership has made it difficult for them to reach consensus on negotiating positions. Brazil has not yet signed the NPT Additional Protocol, although it has not ruled out signing it

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in the near future. Most recently, Brazil has announced its desire to join OPEC following the discovery of massive offshore reserves of oil and gas.

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The Bilateral Relationship  
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¶5. (SBU) The U.S. and Brazil share the basic goals of fostering hemispheric stability, promoting democracy, achieving a mutually satisfactory conclusion to the Doha round of WTO negotiations, preventing terrorist and drug transit activity, and supporting international non-proliferation regimes. U.S.-Brazil cooperation is often limited by the GoB's unwillingness to take action regarding threats to democracy in specific countries and to support aggressive action in multilateral forums on such issues as non-proliferation, human rights, and democracy.

¶6. (SBU) Although under President Lula Brazil has stressed South-South relations, Brazil's status as a leader in biofuels, combined with the March 2007 signing our bilateral MOU on biofuels cooperation, offers a potential avenue for increasing bilateral cooperation in a strategically important area. The two presidential summits in March 2007 (Sao Paulo and Camp David) have helped create a positive tone in our bilateral conversation.

¶7. (SBU) Our bilateral dialogue with the GoB on development assistance to Brazil and in third countries contains positive elements, including promising potential in biofuels. It is constrained by differences in approach to anti-poverty efforts, with the GoB focusing on cash transfers, while the USG prefers more finely targeted assistance. The Brazilian Government's multi-billion dollar poverty alleviation program -- Bolsa Familia (Family Stipend) -- receives technical assistance from the World Bank and IDB. USG budget constraints and the fact that it is a cash transfer program (albeit with conditions) keep the USG from actively cooperating with the initiative. USAID has sought to target

its USD 8 million in programs for Brazil towards promoting sustainable livelihoods through working on issues such as health, the environment, and small and medium-sized enterprises.

¶8. (SBU) The GoB has a strong interest in hemispheric security issues, and cooperates with the USG on the operational level in the fight against terrorism and drug trafficking. Brazil has been cautious about taking an active role in recent high-profile non-proliferation efforts. Brazil remains an active partner in the DHS's Container Security Initiative (CSI) and has expressed approval of the Proliferation Security Initiative (PSI). However, the GoB has not yet endorsed the PSI statement of principles.

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Biofuels -- Potential for Strategic Cooperation  
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¶9. (U) Brazil has transformed a 1970s program to bolster its large sugar-cane sector into a remarkable showcase for biofuels. The success of Brazil's ethanol program has made it a model for the world in terms of alternative energy and presents the potential for bilateral cooperation on an important strategic issue. Brazil's comparative advantage is its ability to produce huge quantities of sugarcane, which is currently the most efficient feedstock for ethanol. Cane requires far less processing than corn to produce ethanol. According to the World Bank, at current prices, Brazil can make ethanol for about one US dollar per gallon, compared with the international price of about USD 1.50 per gallon for gasoline. On the demand side, Brazil's use of modest tax breaks have led new car purchasers to opt overwhelmingly for "flex-fuel" cars that can run on either gasoline, ethanol, or any combination of the two.

¶10. (SBU) Following the signing of the MOU in March, Brazil and the United States have been seeking ways to increase our collaboration in order to develop the next generation of biofuels, as well as in developing international standards on biofuels which should facilitate greater international acceptance and use of biofuels.

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Agriculture Trade Disputes  
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¶11. (U) Brazil, like Canada, made a first request to establish a WTO Dispute Settlement panel on November 19, 2007, to challenge US agricultural domestic support, claiming the US exceeded support caps 1999-2002 plus 2004-2005. A second panel request and the establishment of the panel are expected on December 18. In 2004, the WTO found mainly in Brazil's favor in the challenge against US cotton programs. Brazil challenged US compliance with the Panel report and the Panel found again primarily in Brazil's favor in October 2007 (although the report remains WTO-confidential until formally released in December). Some in the Brazilian congress threatened cross-retaliation against IPR in the cotton case, but to date legislative proposals have not moved forward. News reports have indicated that the Foreign Ministry is preparing such cross-retaliation measures should the WTO find in their favor.

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Deforestation and Climate Change  
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¶14. (SBU) On the environment, Brazil has long been on the defensive about the ongoing, extensive deforestation of the Amazon, which has made Brazil one of the leading producers of greenhouse gases. Over the last three years, the rate of deforestation has dropped sharply. Brazil now views the debate over climate change as an opportunity. It proposes

that the international community provide financial incentives for avoiding deforestation and vigorously promotes the use of biofuels.

¶12. (SBU) Brazil pursues two sometimes conflicting goals with regard to the Amazon region. On the one hand, it seeks to preserve much of the natural resources and biodiversity found in the region. The Forest Code requires the landowner to maintain 80 percent of the forests on the land. Further, the GoB has placed large amounts of the forest into protected areas, such as national parks and indigenous reserves. At the same time, the GoB seeks economic growth and redistribution of land. Thus, since the 1970s it has built a network of roads through the Amazon, which has opened the region to timber and agriculture (mainly soybean) interests. The GoB has resettled many of the poor into settlements along the roads, and as a result, in 2004 the deforestation rate shot up to a high of 27 thousand square kilometers per year. High demand for charcoal to support a rapidly growing pig iron industry has also contributed to significant deforestation. Nonetheless, a combination of market forces and government actions has led to an almost 50 percent reduction in the deforestation rate. For 2007, the GoB expects that deforestation will fall under 10 thousand square kilometers. There are worrisome signs, however, that the rate may be going up again, especially in light of higher prices for agriculture goods and increasing demand for charcoal.

¶13. (SBU) The GoB created a Forest Service in 2006 and is seeking to obtain a stronger grip on forest management. It also has ratcheted up somewhat the enforcement of existing rules against deforestation. These measures are aimed at avoiding a return to the very high deforestation rates earlier in the decade.

¶14. (SBU) With respect to climate change, the GoB has proposed that the international community providing financial incentives for avoiding deforestation. In addition, it uses the focus on renewable energy to promote greater use of biofuels. The GoB, however, is adamantly opposed ) as a developing country - to accepting international, binding obligations that would impede economic growth, such as restrictions on the use of its natural resources. Brazil is sensitive about any suggestions on how it should manage the Amazon.

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Tri-Border Area (TBA)  
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¶15. (U) The Tri-border area (TBA) joining Foz de Iguacu in Brazil, Ciudad del Este in Paraguay, and Puerto Iguazu in Argentina, concentrates a range of organized criminal activities, including arms and narcotics trafficking, document fraud, money laundering, as well as the manufacture and movement of contraband goods. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are moved from Asia into Paraguay and transported primarily across the border into Brazil. The

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United States remains concerned that Hizballah and HAMAS are raising funds in the TBA by participating in illicit activities and soliciting donations from extremists within the sizable Muslim communities in the region.

¶16. (U) The governments of the TBA countries have long been concerned over these illicit activities and in the 1990s established a mechanism, which the US joined in 2002 at their invitation, to address these illicit activities. The "3 1 Group on Tri-border Area Security" is intended to improve the capabilities of the three TBA states to thwart cross-border criminal activity and potential terrorist fundraising activity. Brazil is an active partner within this mechanism, and established and hosts a Joint Intelligence Center (JIC)

in Foz de Iguacu, although staffing issues on the part of Argentina and Paraguay continue to impede its full functioning.

¶17. (SBU) Despite a close bilateral working-level relationship on transnational criminal issues in the TBA, senior levels of the Brazilian government maintain that there is no evidence of an operational or fundraising terrorist presence in the TBA or in Brazil, and they are concerned that such characterizations stigmatize the region's Muslim population and have a negative impact on local tourism.

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Labor Issues  
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¶18. (SBU) The labor movement in Brazil is strong, well-organized, and very influential in many key industrial sectors. President Lula comes from the labor movement. He worked his way up through the powerful metal workers union, was one of the founders of the largest Brazilian labor confederations, the unified Workers Confederation of Brazil (CUT), and of the ruling Workers Party (PT). Labor and related social issues, such as combating Trafficking in Persons (TIP), and forced labor, are top priorities of the Lula Administration.

¶19. (SBU) Most economists and policymakers agree that labor reform is necessary for the Brazilian economy to grow at a faster rate and to reduce the large informal sector. However, comprehensive labor reform is politically unpopular and unlikely to happen during the Lula Administration.

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Trafficking in Persons  
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¶20. (SBU) Trafficking in Persons is present in all of its forms in Brazil, including the trafficking of women and children internally and internationally for purposes of sexual exploitation, the internal trafficking of men for use in slave or forced labor in the cattle-raising, agricultural, and charcoal/pig iron production sectors, and the use of foreign laborers working in slave-like conditions in some factories in the city and state of Sao Paulo. However, the GoB is making a serious effort to combat TIP and forced/slave labor. It signed the Palermo Protocol in 2004 and is now working to get implementing legislation passed by the Congress. President Lula signed a decree in October 2006 establishing a national anti-TIP policy. A binding work plan to implement that policy has been completed and will soon be launched publicly. Ministry of Labor mobile inspection teams have freed over 23,000 laborers from slave-like working conditions since starting work in 1993.

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Brazilian Relations with Iran and Venezuela  
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¶21. (SBU) Brazilian parastatal energy giant Petrobras, majority-owned by the GoB, continues to conduct joint business undertakings with Iran. Brazil disappointed and irritated its neighbor and fellow Mercosul member state Argentina when it recently abstained in an international vote over whether to issue Interpol warrants for Iranian officials accused in the bombing of AMIA, an Argentine Jewish center. Brazil avoids criticizing Venezuelan president Hugo Chavez, the GoB supports its proposed accession to Mercosul, and President Lula recently publicly defended Chavez against accusations that Venezuela is not democratic.

CHICOLA